

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
THIRD SET OF INFORMATION REQUESTS FROM THE DTE
D.T.E. 06-31

Date: September 22, 2006

Responsible: Stephen H. Bryant, President

DTE-BSG-3-14 Please discuss in detail the Company's experience with quantifying the relationship between reductions in sales staff and both quality of service and sales volume. To facilitate a response to this question, if the Company has information regarding the experience of other NiSource subsidiaries with the relationship between sales staff and both quality of service and sales volume, the Company may reference those experiences.

RESPONSE: In 2004, Bay State determined that its existing sales staffing level was not adequate to maximize the use of its infrastructure given then-current market conditions. As a result, the Company added four Field Commercial Sales Representatives to focus on the most profitable market segments. See Attachment DTE-BSG-3-14 (a) for a quantification of the relationship between the Company's distribution sales group staffing level and sales volumes. See Attachment DTE-BSG-3-10 (a) and DTE-BSG-3-10 (c) for quantification of the positive impact of adding four Field Commercial Sales Representatives.

The Company does not have information regarding the experience of other NiSource subsidiaries regarding the relationship between sales staff and both quality of service and sales volume. The experiences of other NiSource subsidiaries would be of limited value to the Company given the fundamental differences that exist in our markets (i.e., competitive position of home heating oil in the Northeast).

The Company has not formally quantified the relationship between changes in its distribution sales group staffing levels and quality of service. However, by way of anecdotal evidence, the Company found that there were certain quality of service issues in the period after the move to an inside sales model. Specifically the Company was concerned about the level and quality of communication with builders and developers, its ability to effectively respond to commercial added load requests, and the overall information exchange between our inside sales staff and prospective customers. The Company determined that these

issues were partly the natural result of the fundamental change in approach, a relatively inexperienced inside sales staff, and some structural problems with the approach. As that model has evolved to include the addition of distribution field sales staff in 2004, through improved communication materials with prospects, and as the inside distribution sales staff has gained more experience, the Company finds that the quality of service issues identified above have improved significantly. See Attachment DTE-BSG-3-14 (b) for examples of the improved communication materials.

Bay State believes that its current distribution sales group structure and staffing levels, including its plans to add one additional field representative, are both reasonable and cost effective for addressing current market conditions.

ATTACHMENT DTE-BSG-3-14 (a)



***Bay State Gas and
Northern Utilities
Leadership Conference***

Marty Poulin

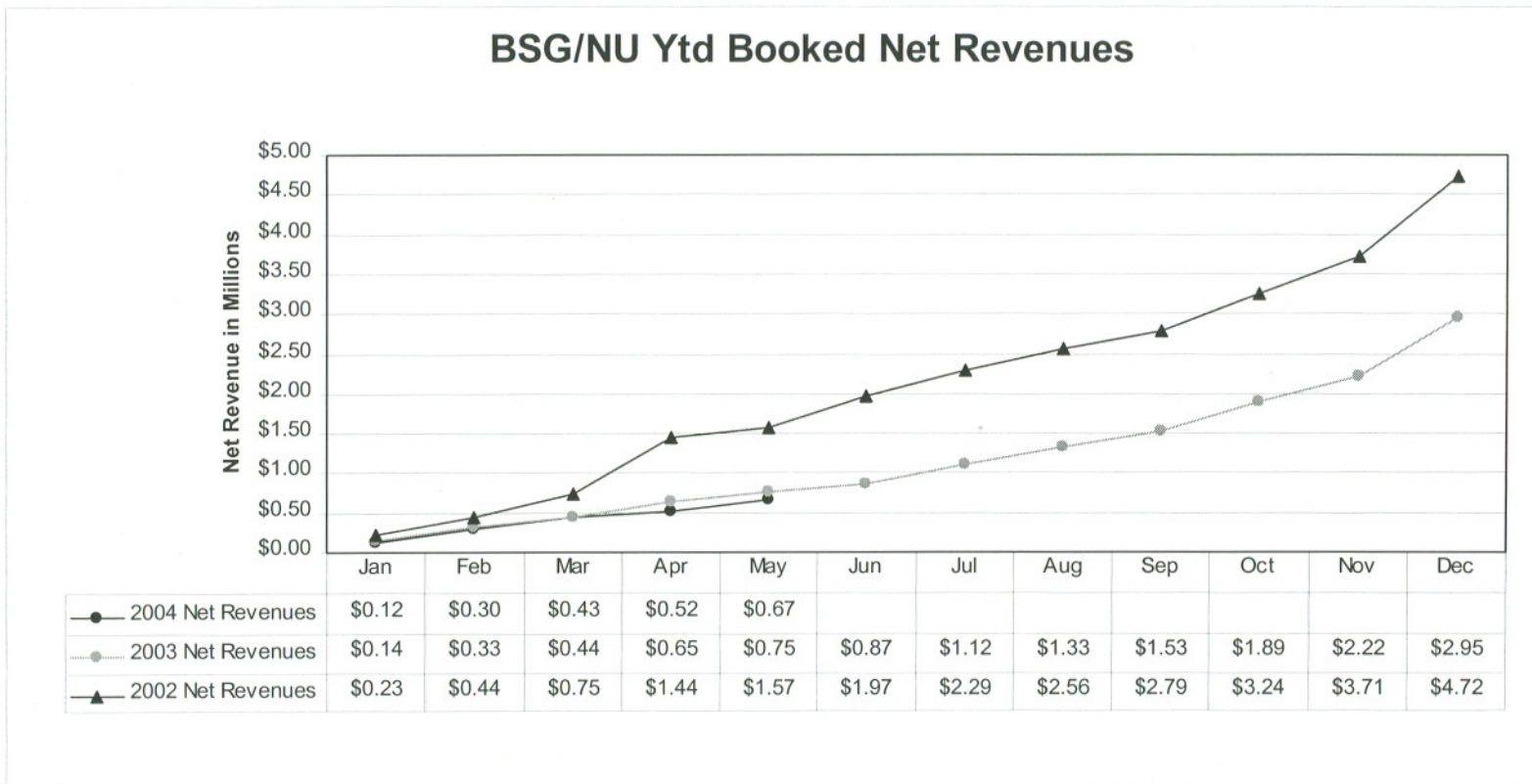
June 24, 2004

***Returning to Throughput
and
Net Revenue Growth
in
New England***

CONFIDENTIAL

Impact of Sales Force Reductions

The removal of the field sales force has resulted in a steep decline in added net revenues.

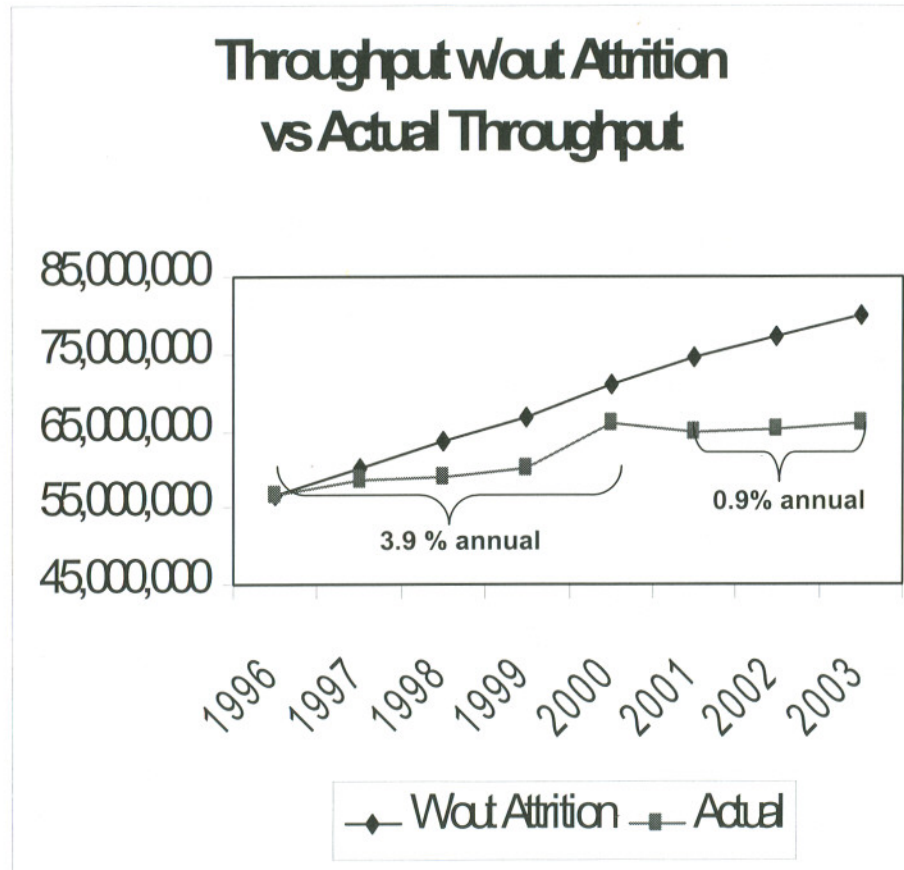


Booked New Annual Revenues – The estimated amount of annual revenue, net of gas cost, that is expected in the first twelve months after a customer's new load is added.

This amount is "booked" when the meter turns on or when a new piece of equipment is added to an existing meter.

Impact of Sales Force Reductions

The lower level of net booked revenues will not be enough to offset the impact of natural load attrition



- In our peak selling years of 1996-2000, we were adding roughly \$7.5 million per year in new net revenues.
- After accounting for \$4.0 million of attrition, normalized net revenue growth during that period was roughly \$3.5 million per year.
- Current revenue addition level of \$2.9 million will not offset attrition.

Impact of Sales Force Reductions

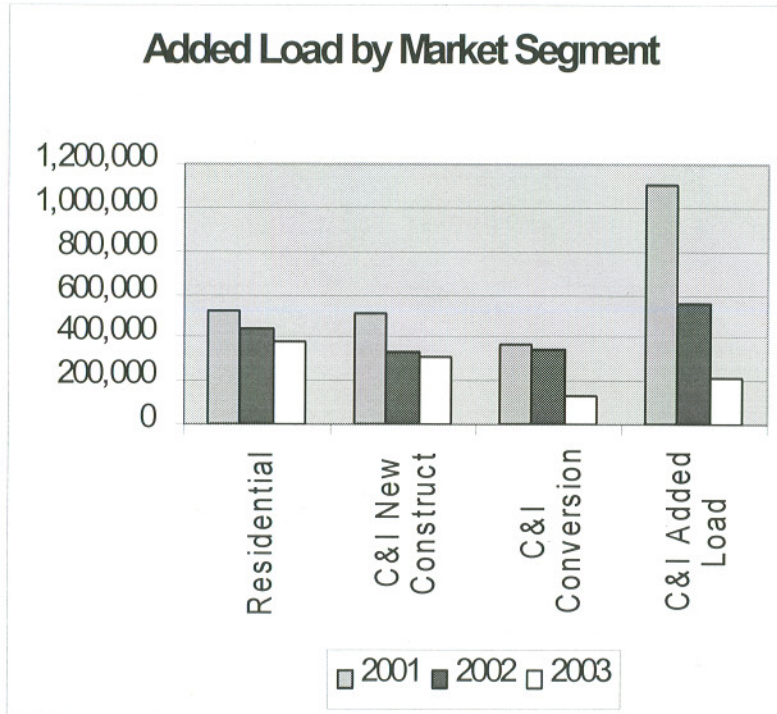
The revenue reduction far exceeds the associated cost reduction.

	2001	2002	2003
Total Field Sales and Key Account Representatives	22	9	1
Booked New Annual Revenues	\$5,733,542	\$4,722,082	\$2,953,616
Total Growth Capital Expense	9,630,664	7,793,730	7,985,302
Total Annual Cost (WACC and O&M)	\$2,588,237	\$1,740,261	\$1,276,736
The Net Net - Booked New Net Revenue Less Total Annual Cost	\$3,145,305	\$2,981,821	\$1,676,880

The 2003 eliminations removed reps that were focusing on higher margin projects.

The most significant reduction in added load has been in the most profitable segments.

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Con Ed project has been removed from 2002 performance

Segment Description and reduction in added load.

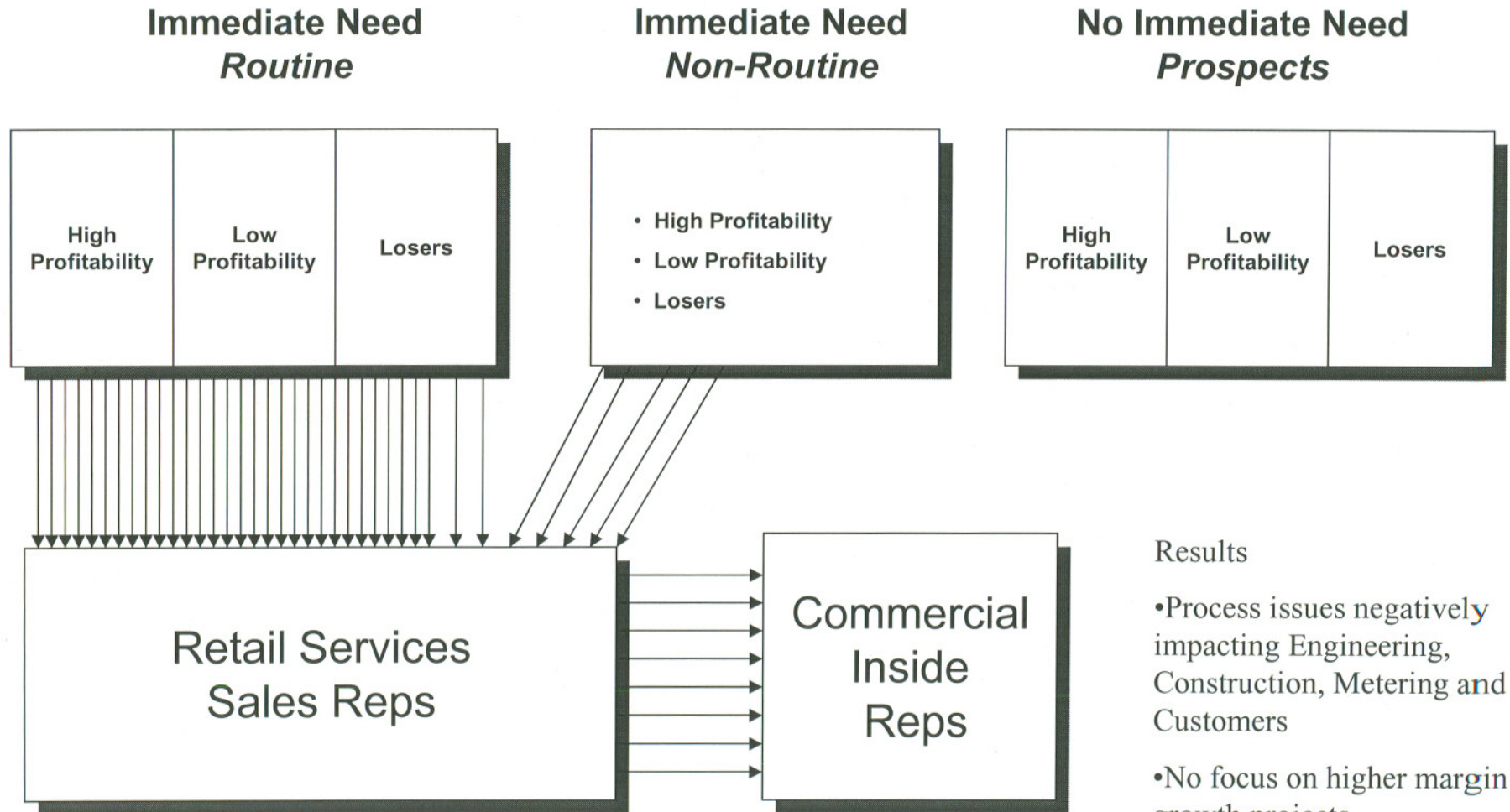
- **C&I Added Load** – Additional end uses to existing customers. Virtually no capital investment.
 - 81% reduction
- **C&I Conversions** – Prospects, generally along our main, using alternate fuels. Minimal capital.
 - 65% reduction
- **C&I New Construction** – New Businesses along and near our mains. Generally moderate capital.
 - 41% reduction
- **Residential** – Primarily new subdivisions requiring main extensions. Higher capital investment.
 - 27% reduction

This is why new revenue additions have dropped off far more significantly than growth capital spending has.

Previous New Business Model

The previous new business model did not allow for developing high margin prospects.

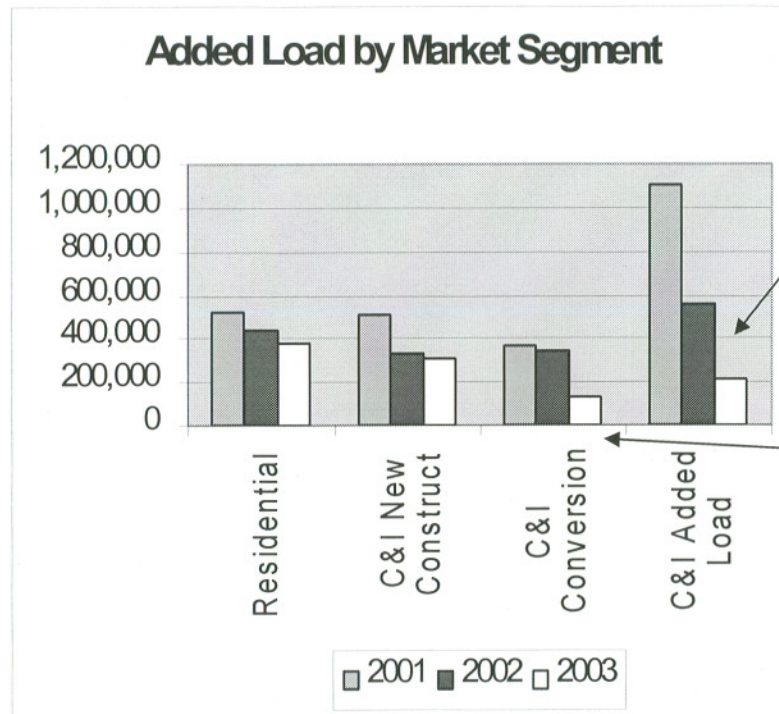
Customers and Prospects



Results

- Process issues negatively impacting Engineering, Construction, Metering and Customers
- No focus on higher margin growth projects

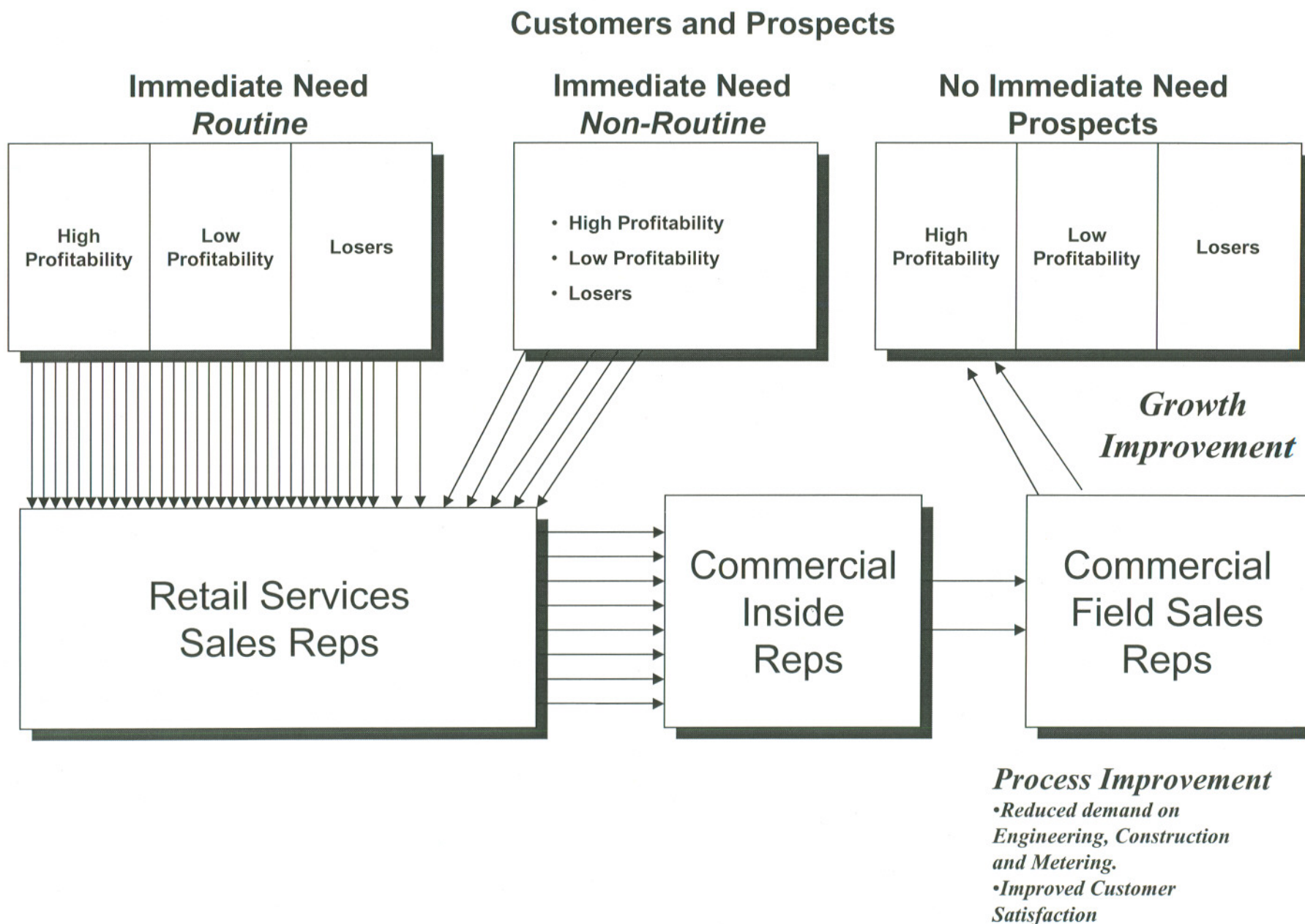
Our rebuilt organization will focus its efforts on these most profitable segments.



- **C&I Added Load** – We will start by rebuilding our relationships with our existing customers
 - Large customers not on the key account list.
 - Municipalities and Schools
- **C&I Conversions** – These have a longer sales cycle. We need to begin to establish relationships with these prospects
 - Rebuilding trade ally relationships is a key component in this market.
- **C&I and Residential New Construction** – This is more of a troubleshooting approach.
 - Working with the Inside Sales Group to ensure we are getting the business, and helping to solve problems for projects that have come in on their own.

Improved Sales Model

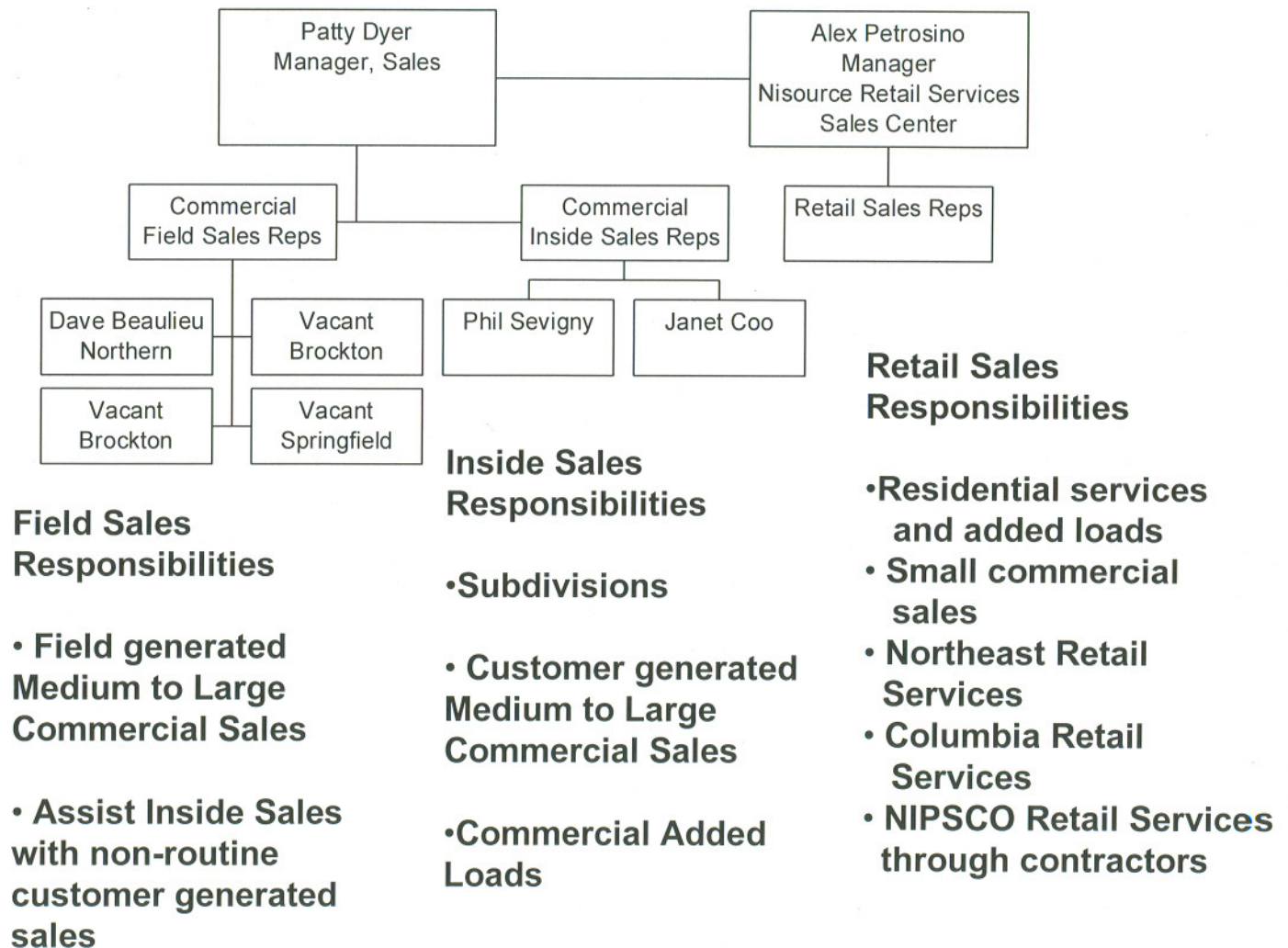
The 4 Field Sales Reps will drive in high margin prospects and assist with more complex sales.



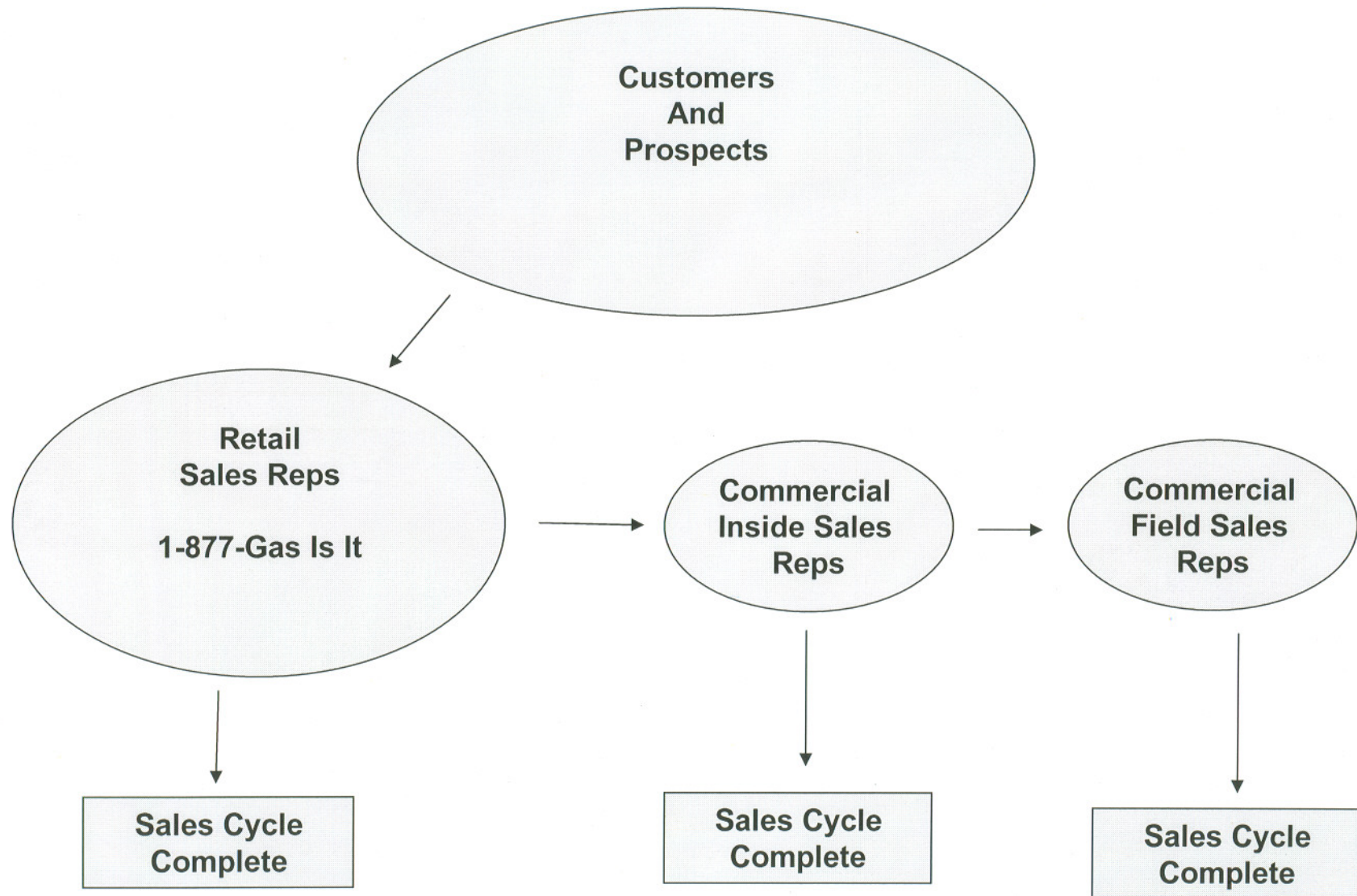
This is not your fathers...Sales Department

- **This is not a return to the Sales Model that we had in the 1980's, 1990's or as late as 2002.**
- **Most activity will still be handled by the Inside Sales Reps.**
- **The purpose of the Field Sales Reps is to get to projects that we are not currently getting.**
- **A secondary role would be to assist the Commercial Inside Reps with projects that require a field visit.**
- **There cannot and will not be a field visit on every commercial sales call.**
- **While a sales visit for every commercial project would likely be a process improvement, there would be no additional sales.**

Bay State Gas/Northern Utilities Sales Organization



All Initial Calls should go through the Retail Sales Center



Plan to Succeed

We will build off the current structure.

- **Build off of the process improvements realized over the last 2 years**
 - Experience Helps - Increased ability of the Retail Sales Center Reps to handle increasingly complex sales over the phone.
 - Use of Scan Traxx for much of the Company
- **Approach**
 - Building a team sales approach, especially with the Inside and Field Commercial Representatives
 - Begin meeting with customers that were on our commercial key account list in 2002 to rebuild the relationships and begin identifying load growth opportunities
 - Work with Operations to improve the Connection Process

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2 years "This is the last project I

or OE decisions as it was the lack

relationships

d

at a bad time of year. It will take
ld before we begin booking new
ull year of bookings
e a full year of increased revenue